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State Of Illinois

Illinois Commerce Commission

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Commonwealth Edison Company

Petition for approval of delivery services
tariffs and tariff revisions and of residential
delivery services implementation plan, and
for approval of certain other amendments
and additions to its rates, terms,
and conditions

Docket No. 01-0423

Direct Panel Testimony of

SUSAN BRYANT

General Manager

Exelon Energy Company

and

DAVID F. VITE

President & CEO

Illinois Retail

Merchants Association

Exelon Energy Ex. 1

1 Q. What are your names and business addresses?

2 A. Susan Bryant, Exelon Energy Company, 2315 Enterprise Drive, Westchester,
3 Illinois, 60154. David F. Vite, Illinois Retail Merchants Association 19 South
4 LaSalle Street, Chicago, IL 60603.

5
6 Q. Ms. Bryant, by whom are you employed, and what are your current
7 responsibilities?

8 A. As General Manager for Exelon Energy Company, I manage all activities in our
9 Westchester, Illinois and Columbus, Ohio offices. These activities include
10 marketing, sales, energy management and operations.

11
12 Q. Ms. Bryant, what is your educational background and professional experience?

13 A. I earned a Bachelor of Science Degree in Management and a Bachelor of Arts
14 degree in Psychology from the Purdue University and an MBA in Finance from
15 the University of Missouri. I have held various operational, marketing, sales, and
16 general management responsibilities. Currently I am General Manager for
17 Exelon Energy Company responsible for all activities including marketing, sales,
18 energy management and operations. Prior to joining Exelon Energy, I worked in
19 the TeleCom industry for several years. The later part of my career in TeleCom
20 was focused on the newly unregulated local telephony areas.

21
22 Q. Please describe Exelon Energy Company.

23 A. Exelon Energy is an unregulated subsidiary of Exelon Corporation, which either
24 sells or sold competitively-priced electricity to residential, small business,
25 commercial and industrial customers in Illinois, Pennsylvania, Ohio and
26 Massachusetts. Exelon Energy also provides or provided transportation and
27 consumer gas service in Illinois, Pennsylvania, Ohio, Michigan, Delaware and
28 New Jersey. The Company has offices in Westchester, IL, Norristown, PA and
29 Columbus, OH.

30
31 Q. Mr. Vite, by whom are you employed, and what are your current responsibilities?

32 A. As President & CEO of the Illinois Retail Merchants Association, I am responsible
33 for administering the day-to-day activities of the Association, including the
34 management of all programs for the Association membership. The Illinois Retail
35 Merchants Association is an Illinois not-for-profit trade association that is
36 recognized as the spokesman for Illinois retailing. Within its membership are
37 retailers in all merchandise lines located throughout this State. Direct
38 membership includes approximately 10,000 food and non-food retailers ranging
39 in size from small "Mom and Pop" businesses to national chains. Subscribing
40 memberships held by local chambers of commerce, retail committees, and
41 shopping center organizations raise IRMA's membership to over 25,000 Illinois
42 retailers that account for approximately 85% of all retail sales in Illinois.

43
44 Q. Mr. Vite, what is your educational background and professional experience?

45 A. I have a Bachelor of Science degree from the University of Wisconsin, Lacrosse.
46 During my 24-year tenure at IRMA I have had a variety of responsibilities
47 including Manager of Member Services, V. P. Government Affairs, Executive
48 Vice President and since 1985, President & CEO. During that time I have had
49 the professional responsibility of developing group buying and affinity programs
50 for IRMA members. For the past several years, I have been intimately involved
51 with the competitive electric marketplace including being appointed by the Co-
52 Chairs of the Illinois House Committee on Electric De-Regulation to act as
53 facilitator of the negotiations on the Electric Service Customer Choice and Rate
54 Relief Law of 1997. Since that time I have negotiated several Affinity Program
55 contracts with Exelon Energy for the provision of electricity to IRMA members
56 choosing to select an ARES.

57
58 Q. Please provide a summary of your testimony.

59 A. The primary purpose of our testimony is to propose an alternate approach for
60 applying any proposed increase to Rate RCDS. Our concern is that the
61 proposed immediate application of the increase for Rate RCDS customers will
62 adversely affect Exelon Energy customers, including members of the Illinois
63 Retail Merchants Association ("IRMA"), that have signed long term contracts by
64 reducing or eliminating any savings they see over ComEd's bundled rates. A
65 majority of Exelon Energy customers are members of IRMA. Our review of the
66 proposed Rate RCDS increase shows that IRMA members' savings will be
67 significantly reduced or eliminated. This situation will continue until the delivery

68 services component of ComEd's bundled rates is increased to the same level as
69 the RCDS distribution service rates. It is important to these customers to limit the
70 impact of the increase through the end of their contract terms. Accordingly, we
71 propose a fair and reasonable solution for customers to transition to the Rate
72 RCDS levels approved by the ICC in this proceeding.

73
74 These Customers that are currently in the competitive market are pioneers that
75 took the risk and initiative to participate in a new marketplace. The immediate
76 application of the total proposed increase in Rate RCDS would directly affect
77 these customers, while it would not affect customers that are taking a 'wait and
78 see' approach to the new marketplace. This is especially true for customers,
79 many of whom are IRMA members, which currently have a zero CTC due to their
80 contract rate with ComEd. These customers agreed to contracts with Exelon
81 Energy based on current Rate RCDS levels and now they will have the basis of
82 that decision and commitment substantially eroded during the terms of their
83 electric supply contracts. One of the goals of the Electric Customer Choice and
84 Rate Relief Law of 1997 (the "Competition Act") is to provide customers with
85 choice and to establish a competitive market. While it is reasonable to allow the
86 full recovery of appropriate costs by the distribution company, the rate increase
87 as proposed would significantly reduce any savings a competitive supplier can
88 offer. The most likely result of this increase is that customers will lose contracted-
89 for savings and they may choose not to enter into the competitive retail
90 marketplace in the future. With fewer customers participating in the marketplace,

91 competitive suppliers will pursue business elsewhere. Therefore, activity in the
92 competitive retail marketplace will decline, perhaps significantly. We believe this
93 consequence can be mitigated or eliminated by allowing a gradual transition to
94 the approved rates or by delaying the increase closer to the time that all delivery
95 rates are adjusted. There is clear and applicable Illinois precedent for this type of
96 approach, and therefore we propose a solution that balances the interests of
97 consumers and market participants.

98
99 Legislators, regulators, utilities, customers and competitive suppliers have
100 worked hard to create a marketplace and nurture it through its infancy. We must
101 therefore take into consideration the effect on the marketplace of a sudden
102 change to a critical cost component, which will likely reverse our progress in
103 creating a competitive market. We believe a solution that accomplishes change
104 through a reasonable transition will benefit the marketplace.

105
106 Q. What is the purpose of your testimony?

107 A. 1) To identify a concern with the immediate application of increases in Rate
108 RCDS for non-residential customers;

109
110 2) To discuss the impact of the immediate application of increases in Rate
111 RCDS on Exelon Energy customers that have signed long-term contracts. For
112 illustrative purposes, we will concentrate on the impact on IRMA customers;

114 3) To propose solutions that would provide a reasonable transition to any new
115 ICC-approved RCDS rates, as opposed to the immediate full application of
116 increases to Rate RCDS.

117
118 Although we each have relevant knowledge of and have contributed to all
119 portions of this panel testimony, Mr. Vite has primary responsibility for the
120 portions of our testimony dealing with the effects of ComEd's proposed rates
121 upon customers. Ms. Bryant has primary responsibility for portions of our
122 testimony dealing with supplier issues, and we are equally involved with the
123 analysis of the proposed RCDS increase and other portions of the proposed
124 plan.

125
126 Q. Do you have concerns with any specific proposed changes to the
127 Commonwealth Edison ("ComEd") Tariff?

128 A. Our primary concern is the proposed increase in Rate RCDS for non-residential
129 customers, which would increase our current customers' distribution service
130 rates.

131
132 Q. How did you become aware of the proposed changes?

133 A. The changes are discussed in the direct panel testimony of Ms. Sally Clair and
134 Mr. Paul Crumrine. They state "The charges for all customer classes in Rate
135 RCDS for non-residential customers have been revised to reflect the updated
136 state-jurisdictional revenue requirement." See Testimony, p. 12 of 57, lines 283

137 and 284.

138
139 Q. Have you analyzed the direct effect of the proposed increase on your customers?

140 A. Yes, we have reviewed the proposed changes and have compared them to the
141 current rates charged under Rate RCDS. We believe that the proposed changes
142 will significantly reduce most of the savings currently realized by customers
143 compared to ComEd bundled rates. We have limited our analysis to IRMA
144 customers under contract.

145
146 Q. Describe the make-up of the Exelon Energy customers under contract that are
147 currently served on Rate RCDS?

148 A. All of the customers under contract with Exelon Energy are non-residential. A
149 majority of the customers are members of IRMA. Most of the IRMA customers
150 fall into the non-residential band of 100 to 400 kW and 400 to 800 kW. A majority
151 of these customers have entered into long-term (in excess of one year) contracts
152 with Exelon Energy that started in May of 2001. These customers took the
153 initiative under the Competition Act to switch from traditional bundled service
154 rates to the new competitive market. These customers were motivated by the
155 expectation of saving money as compared to remaining on bundled service.
156 These expectations and resulting switching activities are the key to establishing
157 and sustaining a competitive retail electric marketplace that will provide all
158 consumers with a choice of suppliers and products.

160 Q. Describe the effect upon Exelon Energy customers currently under contract of
161 the proposed increase to Rate RCDS.

162 A. The effect of applying the entire proposed Rate RCDS increase to customers
163 under contract with Exelon Energy would be the significant reduction of customer
164 savings compared to bundled service rates. The structure of switching
165 customers rates shows why this is the case. The delivery service, generation
166 and transmission components of customers' total charges from Exelon Energy
167 are set by contract. The original combination of generation, transmission and
168 delivery service charges from Exelon Energy represented a savings over
169 traditional bundled rates from ComEd. This value proposition was the primary
170 reason our customers chose Exelon Energy as their supplier over staying with
171 the traditional bundled rate. The immediate increase in Rate RCDS increases the
172 delivery service component of their charges, despite the fact that the delivery
173 service charge of bundled service remains unchanged.

174
175 Q. Did you review other aspects of the proposed filings?

176 A. We have not analyzed the components of the proposed RCDS increase, so we
177 take no position on the overall amount of the proposed increase or its
178 components. We acknowledge that, over time, distribution companies should
179 have the opportunity to recover all appropriate costs of providing service to
180 customers. We have reviewed the ratchet proposed by ComEd for Rate RCDS
181 as it applies to IRMA members, and we believe that it will not adversely affect the

majority of the IRMA members.

Q. What are your concerns with the proposed immediate increase in Rate RCDS?

A. As previously stated, a majority of Exelon Energy's customers are members of IRMA. IRMA members have a zero CTC component in their rates. Therefore, unlike other non-residential customers, increases in delivery service charges for customers like IRMA members are not offset by a corresponding decrease in CTC charges. This offset generally results in a 'one-for-one' reduction in savings when compared to bundled service rates, but this offset does not apply to IRMA customers as well as others with zero CTC values. Therefore, the change as proposed would immediately and disproportionately reduce the savings realized by IRMA members during the term of their Exelon Energy contracts.

Q. Please expand on how this proposed change affects customers that have long term contracts.

A. Many of Exelon Energy 's customers, including the IRMA members, entered into long term contacts (in excess of one year) following the establishment of the Period A Market Value Index in May of 2001. These customers based their decisions on economic valuations and expectations of their realized savings based on a proposed generation and transmission price from Exelon Energy and the current ComEd delivery service rate, which they compared to the applicable total bundled rate from ComEd. The extended contract term limited their exposure to changes in the generation market. The consequence of an

205 immediate increase in delivery service charges as proposed during the contract
206 period will significantly reduce the value and benefits of the contract by
207 eliminating of the primary reason for switching from bundled rates. Because the
208 customers have signed long-term contracts, their ability to make changes is
209 delayed until the expiration of the contracts. For this reason these customers
210 would like to see the results of the increase delayed until after the expiration of
211 their current contracts.

212
213 Q. Can you quantify the likely effect of the RCDS proposed increase upon
214 customers?

215 A. We calculated the likely effect of the increase based on average IRMA member
216 characteristics using PPO rates as an approximation for supplier charges. We
217 cannot use actual customer examples because rates in customer supplier
218 generation service contracts are highly proprietary and confidential as to both the
219 customer and the supplier.

220
221 For an average IRMA customer served by Exelon Energy, the total bill increase
222 would be approximately 3%, including the effects of the proposed ratchet and the
223 use of the PPO generation rate for comparison purposes. Without the ratchet,
224 the increase in the total bill would average about 3.85%.

225
226 Q. The panel testimony of Ms. Clair and Mr. Crumrine provides that "charges and
227 fees are cost-based and allow for appropriate recovery of ComEd's costs to

228 provide delivery services from retail customers for which costs are incurred.

229 Indeed, the revision is necessary if ComEd is to have an opportunity to fully

230 recover its costs of providing delivery services, as it is entitled to do." See

231 Testimony, p.12 of 57, lines 285 to 289. Do you agree with this statement?

232 A. We recognize the need for all market participants, including delivery services
233 companies, to have the opportunity to collect all of their appropriate costs. We
234 have not reviewed, and we take no position on, the level or components of the
235 RCDS rates proposed by ComEd. Our concern is the impact of immediately
236 increasing Rate RCDS while the delivery service component of bundled service
237 remains frozen. We believe it is imperative to establish a way for customers
238 currently on Rate RCDS to reasonably transition to the new delivery service cost
239 structure. We believe that an effective transition is essential to balance to the
240 needs of all market participants.

241
242 Q. In your opinion, has customer switching activity in other states been affected by
243 differences between regulated and competitive services?

244 A. Yes. In states or utility service areas in which customers can secure only
245 minimal savings by switching to competitive suppliers, switching or customer
246 shopping has been minimal. This is at least part of the reason for the low level of
247 customer shopping in California, Massachusetts and western Pennsylvania.

249 Q. Will Alternative Retail Electric Suppliers choose to operate in markets in which
250 customers can realize only minimal savings by switching as compared to total
251 bundled rates?

252 A. Competitive Suppliers have to make economic decisions concerning whether to
253 enter any potential electric market. One significant consideration is the suppliers'
254 ability to offer savings to customers as compared to bundled rates. If suppliers
255 cannot offer savings to customers in a specific market, they generally will not
256 enter that market because the level of potential profit from customers switching to
257 competitive supply will be minimal and will not justify the business and regulatory
258 costs that are required to enter that market. Moreover, customers are not likely
259 to switch in numbers that will produce profit levels sufficient to justify investment
260 in that market.

261

262 Q. Do you have a proposal to address the concerns you have identified?

263 A. There are several possible ways to potentially address our concerns. One of the
264 more promising ways would be for the ICC to adopt a phase-in of the appropriate
265 level of the RCDS increase. Specifically, the approved increase could be
266 phased-in in increments annually until the bundled ComEd rates are revised to
267 incorporate a new distribution service component. A phase-in would have the
268 following benefits:

269

270 1) It would reduce the customer "rate shock" that would result from the
271 immediate implementation of the entire RCDS rate increase; and

272

273 2) It would allow customers to gradually become acclimated to the

274 increase, thereby lessening the risk that customers will attempt to leave
275 the competitive market or be reluctant to enter the competitive market.
276

277 Accordingly, we believe that a properly structured phase-in plan would be in the
278 public interest and would address competitive market effects. This is true
279 because the phase-in period would be relatively short. We recognize that the
280 plan would need to be certain as to amounts and timing of the phase-in, and that
281 ComEd may be entitled to receive a return on deferred revenues. Lastly,
282 because there is experience with phase-in plans in Illinois, a properly structured
283 phase-in plan should not be administratively burdensome to the ICC, affected
284 parties, or the public interest.
285

286 Q. Does this conclude your testimony?

287 A. Yes.
288